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SUMMARY OF ISRAEL'S STATE COMPTROLLER'S 1959 REPORT

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FOREWORD

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SUMMARY OF ISRAEL'S STATE COMPTROLLER'S 1959 REPORT

[Following is a translation of an unsigned article published in the Hebrew language newspaper Davar, Tel Aviv, 10 May 1960, page 4].

Stresses "An Organized Effort to Correct Deficiencies"

At the opening of his Tenth Report, the State Comptroller stressed that during that year a determined effort was made to correct weaknesses. The Comptroller describes the efforts that were made by his office, in coordination with all the other government offices, in order to find ways to correct deficiencies and to prevent their occurrence insofar as possible. He reports that with the advice of the Knesset [Parliament] a special committee was formed, and it was decided to constitute an inter-office committee for the special purpose of examining deficiencies and remedying them. In several ministries, the committee has already begun its work, while in others it has not yet been activated for various reasons. The conclusions and the recommendations of the special committee were published last June.

Further, the State Comptroller specifies the technical arrangements made with government offices in order to insure the correction of weaknesses. He also reports on the ways his office dealt with complaints from the public.

Activities to Reduce the Number of Employees Have Failed

In detailing his efforts with respect to the management of personnel affairs in government service, the State Comptroller reports that his office conducted in 1959 a survey in the field of manpower and management of the affairs of government personnel in order to be able to draw conclusions concerning the general lines and objectives characteristic of developments in this field during the last ten years. The Comptroller analyzes the developments in the administration from the numerical point of view. He deals with the scope of the spread between the various grades and the reasons for the spread; and he dwells especially on the various operations that were undertaken in the past in order to reduce the number of employees and to freeze the number of positions.

In his conclusion, the State Comptroller says: "After the failure of the principal activities designed to reduce personnel - dismissals in the form of an ad-hoc operations - the principles

which the State Comptroller has already pointed to were found valid once again. Efforts must be made to achieve the reduction through a systematic examination of the vital importance and the efficiency of the various offices and of organizational units, in order to improve the administration and to eliminate surplus units and tasks, as well as through dismissal of inefficient workers. A systematic and close effort is required in order to maintain a rational scope of the administration. A fundamental improvement in this field is possible only if the importance of the various positions will be examined in a systematic and repeated manner; similarly, manners of operation and the individual efficiency of the workers must be scrutinized. This must be done in order that functions as well as organizational units can be merged to the degree possible. Such examinations must serve as the point of departure for increased efficiency of work. Ministries and the Civil Service Commission must be responsible for these surveys and must consider them their regular duty. Some of these surveys must be undertaken as part of the yearly inspection of the procedures of these offices."

Criticism of Table of Organization and of Changes in Pay Grades

In detailing the grades of government employees and their pay scale, the Comptroller surveys the development of the grade and wage structure. He finds that the new table of organization cannot be regarded as a project based on sound management principles. In the Comptroller's opinion, promotions in grade were made principally as a means to raise the salaries of a considerable number of workers, and did not result directly from a change in duties. Promotions in grade depended on seniority of the worker in his previous grade and on negotiations in individual committees, and not on topical considerations concerning the degree of the suitabilities of the worker to his task, and of his abilities. In order to make possible promotions in grade, changes were made in the tables of allowances which undermined their suitability for serving, according to principles based on objective considerations, to define levels of responsibility and chain of command.

The State Comptroller therefore finds that a survey of the development of the grade structure and of the salary practices in government service makes it clear that the changes introduced in this field were made in an unsystematic manner, often without continuity. A part of them are still in force, and resulted from decisions of the ad hoc committee. In a number of cases, the recommendations of the committees were outdated even as they were enacted. This procedure did not bring about a consolidation of the grade structure and sound salary practices. Corrections in

the grade structure and the salary structure which were made in the course of the years were in fact merely temporary solutions which did not contribute to a systematic progress in a planned manner on a long-term basis.

In the absence of continuity and of systematic procedures in the management of these matters, no progress was made in the years 1948-1958 towards instituting a regular ordering of grades and of salaries of civil servants. The various salary regulations, enacted within the framework of the present grade structure in the year 1959 - the new table of allowance and overtime pay - created new disturbances in the grade structure.

An examination of the changes that were made in the grade structure and in the wage structure in government service in the last few years shows that these activities were influenced in a marked degree by problems that are connected with the general pay level in the country and in the comparative relationships of salaries in various occupations. To a large degree this dependence is what brought about frequent revisions in grades and in the grade structure, making it possible to grant various groups of workers changes in salary, thus avoiding a general pay raise, especially a raise in basic pay. But the experiment to carry out changes with respect only to specific groups of workers does not face up to realistic examination. Demands for changes and corrections in grades and salaries spread like a chain reaction and encompassed the entire civil service. The grade and salary structure in the years 1948-1958 hardly attained stability, as already pointed out. The payment of a cost of living allowance which was nearly uniform and bore no relation to basic salaries had as its effect the reduction of the gap between grades, which was in any case small in the first years of the existence of civil service. In the year 1955/56 the differentials were changed to some degree, as a result of the recommendations of the Guri Committee. But after that year there was a marked tendency to alter the existing grade structure as a result of a general upward movement of workers toward higher grades. Certain activities which took place in the field of grade and wage structure in the period 1948-1958 must be singled out - attempts designed to stabilize the permanent grade and wage structure. But the activities that took place in the year 1956/59, such as the new classification of personnel and the grant of overtime pay, constituted a fundamental and clearcut deviation from the principles upon which a stable grade and wage structure should be based.

The State Comptroller finds that in the hiring of new government personnel in accordance with the proclamations of the Civil Service Law of 5719, regular procedures required in the hiring of newcomers to government service were not observed for various reasons. At the end of the chapter the State Comptroller

recommends changes and corrections with respect to work regulations and the hiring of new workers, the training of government workers and their evaluation from the point of view of work standards.

In his reply, the Minister of the Treasury, Levi Eshkol, agrees that complementary laws must be added and enacted with respect to the civil service and all that is connected with it; however, the minister of the Treasury disagrees with some of the assumptions and conclusions of the Comptroller with respect to the dismissal of workers and their transfer to other duties, etc. With respect to matters of salary and grade, the Minister says, that the various improvements made with respect to wages in 1959 were the result of the general policy of the government and of the Histadrut [Israel labor organization]. It was the intention of this policy to prevent a general salary rise and to limit action insofar as possible to justify complaints, based on the peculiarities and differences of certain specific groups of workers. In the opinion of the Minister, the analysis of the Comptroller points to the need to make improvements in wages.

There is no Coordination in Supervision Over the Quality of Food

In surveying the various government authorities concerned with the supervision over the quality of food and its production, the Comptroller finds that there was inadequate coordination in the work and the supervision of the various authorities in the Ministry of Health, Ministry of Agriculture, Ministry of Commerce and Industry, etc. After discussions took place, a central committee was created in order to coordinate the work of these offices and to improve the standards of sanitation in various industries; but this activity was not crowned with success. In this connection, the State Comptroller says: "When this operation did not bring the hoped-for achievements, it became clear that the central committee was not suited to carry out joint supervision. The three offices decided at the end of the year 1958 that instead of one-time operations within the framework of the central Activities Committee regional committees should be set up. These should be composed of representatives of the Food Division of the Ministry of Commerce and Industry, Regional Health Offices of the Ministry of Health, Veterinary Offices of the Ministry of Agriculture, and the local authorities. It would be the responsibility of these committees to examine every enterprise prior to issuing a permit, paying attention to the requirements of every supervisory authority concerned with the matter, and to coordinate in this manner the supervision among themselves. After the constitution of these committees, the Central Committee should have reduced itself to duties pertaining to overall guidance and coordination. Regional

committees were formed everywhere in the country by April 1959, except in the Tel Aviv area. This arrangement includes only approximately 35 percent of the meat packing plants in the country (65 percent are in the Tel Aviv area), and about 28 percent of the enterprises in the fish industry (72 percent of which are in the Tel Aviv area). The activities of the committees did, however, bring about increased coordination among the supervisory agencies, mainly in the field of issuance of permits.

The principal means of supervision are visits to the enterprises and the sampling of products. The nature of things requires procedures adjusted to specific viewpoints. For instance, preference might be given to a specific type of product, such as one that is particularly susceptible to pollution or to adulteration; or to a specific enterprise, on the basis that previous visits disclosed a low level of sanitation there. It is clear that the supervisory bodies generally carry out their inspections and their taking of samples without planning and without system.

In the Ministry of Commerce and Industry - both in the central technological units and in the regional units - there was no detailed and fixed planning of work. A statistical breakdown of the reports concerning inspections to a number of food enterprises, such as sausages and meat packers, marmalades, bakeries and dairy plants, showed a lack of system in the visits and in the sampling; this was also reflected in that a number of cases occurred in which enterprises that were found markedly deficient were thereafter not visited again for a long time. In contrast to this, enterprises in which conditions were found to be satisfactory were frequently inspected.

The Ministry of Health, after it became aware of a lack of information concerning the number of enterprises existing in the various regions and their sanitary conditions, decided at the beginning of 1958 to conduct a national survey dealing with about 30 food industries and to gather the facts required for the planning of supervision, both with respect to the issuing of licenses and with respect to the frequency of visits of inspectors. The survey was set to be completed in the period April-June 1958. The results of the survey of those industries that were fully surveyed at the beginning of 1959 showed that in 50-60 percent of the enterprises the sanitary level was low. The survey of all branches was finally completed in June 1959, and results were similar. But the purpose of the gathering of data was achieved - with respect to the number of enterprises and their sanitary conditions - but the data gathered has not yet been used for systematic planning. According to the Ministry of Health this is due to "a lack of manpower."

Not one of the local authorities which served as examples of inspection prepared a detailed work schedule; the inspection that was carried out took place occasionally, and in many instances took place only once a year in connection with the yearly license.

The State Comptroller heavily criticizes the deficiencies in the organization of supervision over the quality of food, the limitations in the laboratories of the Ministry of Commerce and Industry. He ends by making a number of suggestions for the improvement of the situation, especially of coordination among the several authorities.

In his reply, the Minister of the Treasury says that the recommendations of the Comptroller will serve as guidance for the improvement of conditions, and that it is the duty of the director-general of the ministries concerned to pay immediate attention to these matters.

Deficiencies in the Work of the Archives

The State Comptroller stresses that in the last few years a number of activities have taken place designed to improve the work of the archives important to the work of government ministries, but there are still widespread deficiencies. The Comptroller stresses that in many instances it was determined that the personnel working in the archives, including their supervisors, were of inadequate caliber and could not master their work either from the professional point of view or from the point of view of work management. A partial reason for this situation is to be found in the fact that the personnel of archives are graded in the lowest grades of the governmental grade structure.

Dealing with the responsibility of government workers for pay vouchers from the Treasury, the State Comptroller enumerates instances of irregularities and of payments on the basis of false vouchers. He says that there were instances in which false vouchers reporting false facts served as the basis for payment; the intention of the certifying official was to favor the local authority or the office in which he worked. For instance, local authorities asked the Ministry of Education and Culture for exaggerated payments as the Ministry's participation in the transportation of students or the feeding of children. Cases occurred in which the local authorities and a government office received payments for workers as emergency workers, when in fact these workers were assigned to other tasks or did not work at all. There was even one instance in which an employee approved a bill for work that had not been done; after receiving the payment he kept the money, and he explained the matter by saying that he wanted to increase (the amount of the allocation?).

There are cases in which a qualified worker approves of the right of a man to collect a certain amount and specifies a reason which has no factual basis, and does so because he thinks that the payment is justified, although for a different reason. To give examples: he certifies that the wife of an employee performs work, which in fact was done by her husband. In an institution in which overtime work was done by the employees who were not entitled to receive overtime pay, a voucher was made out under the name of other workers who in fact did not perform this work. There were instances in which a public official certified the receipt of certain goods or the completion of work above the correct amount, with the intention of enabling the citizen or the firm to collect what the official believed it should have received for a different reason.

In his reply, the Minister of the Treasury stated that a government employee who pays out money on the basis of an incorrect voucher is tried by a disciplinary board of the Civil Service Commission and is punished.

In the section dealing with monetary problems and the economy of the state, the State Comptroller surveys the development of the various budgets and the changes that had to be made in the budget because of unexpected changes in expenditures. It is the conclusion of the Comptroller that supplementary budgets cannot be prevented and that it should be possible to make changes, inasmuch as during the fiscal year needs can arise that could not have been foreseen. As for the funds that operate outside of the budgetary framework, the Comptroller surveys the principles that should guide the managers of these funds.

Deficiencies in the Water Economy

In the course of his critique, the State Comptroller found a number of deficiencies in the water economy. The Comptroller says that the state allocates each year large amounts of its budget for the execution of national and regional water projects.

Inspection reveals that the yearly activities of the Meqorot Company do not fit with the yearly plan of operation that is outlined in the budget law. It should be stressed, that the company is forced by various reasons to diverse each year from the work plans that are approved for it. The principal reasons for this are given below. In the field of the development of sources of water there is, by the nature of things, an unknown factor that cannot be anticipated. For instance, a drilling may produce nothing or may bring up brackish water; this requires an alternative solution which necessitates additional expenses. Both the Treasury and the Jewish Agency, the two organizations that pay for most of the activities of the Company, tend to alter in the course of the

fiscal year the size of the amounts that are allocated during the year. This forces the company to adjust its plans according to the changed allocations. The yearly expenditures for the plans of activity which are submitted by the Megorot Company and which serve as the basis for the operations planned by the budgetary law, are based on data programmed by the TAHAL [Tikhnun Hamayim LeYisrael - Israel Water Planning Agency]. The criticism stressed that although the TAHAL Company submits to the Megorot Company the general plan on schedule, there are grave delays, generally, in the submission of the detailed plans to the Megorot Company. The detailed plans include, by the very nature of things, many new details which are of a nature to change markedly the estimate of expenditures. In this manner, the Megorot Company bases its yearly plans of activity in many cases only on preliminary engineering estimates.

In many cases the Megorot Company is forced by governmental settlement, or industrial factors to erect hurriedly installations for the supply of water to new consumers which were not taken into account at the time of the projection of consumption on which the planning of the yearly activities that are approved for the company is based. In general, the Treasury approves beforehand in the proposed budget law only part of the yearly program of activities that is proposed by the company, and after the approval of the law additional cuts are made in the funding, within the year of execution. For these reasons, the yearly allocation is not adequate, in its final form, to provide full employment for the regular employees of the company, for the heavy mechanical equipment owned by the company, and for the Yuval Gad factory which makes cement pipes. In order to give full employment for these factors, the company tries to find ways to carry out work that exceeds the activities that are approved for it for that year.

As a result of the conditions depicted above, the operations program that the budget law approves for the company becomes to some degree obsolete. In many cases this happens even before the beginning of the execution of the program, and the company is forced to readjust its program several times in the course of the execution year. The divergences from the work program that is assigned to the company by the budget law are reflected in deviations from the amounts that are allocated in the law for operations and for projects, as well as in the execution of works that had not been included in the yearly budget as approved. The execution of work in excess of the budgetary framework is made possible by the earlier execution of works that were planned to be carried out in future years - at the expense of the development budget that will be approved for the company in the future. As a temporary way of paying for these works, the company uses internal and external funding resources, such as the depreciation fund, loans from banks

and financial institutions (which entails payment of interest), loans from contractors and various dealers which increases the expense of the operation and which is likely to hamper possibilities of negotiation with contractors.

The Comptroller dwells on the great gap between the budgetary estimates for water projects, the budget as approved, and the real expenditures - a gap that reaches many million pounds. However, the Comptroller concludes that the budgetary changes were frequently in accordance with reality, but that according to his views attempts should be made to have the changes appear in the budget law.

State Investment in Yuval Gad

Last year the Comptroller examined the arrangements between the state and the Yuval Gad factory with respect to the investments of the governments in that enterprise. The Yuval Gad factory undertook to produce 108-inch pipes, which required the acquisition of special equipment. For this purpose, the development budget allocated a sum of 1,135,000 Israel pounds in the year 1957/58 and an additional amount of 780,000 Israel pounds in the year 1958/59, within the framework of allocations for the national water scheme. These amounts were placed at the disposal of the Megorot Company as the agent of the state with respect to the carrying out of the national water scheme. According to data provided by Megorot, the investment up to March 31, 1959 to enable the Yuval Gad factory to equip itself for the production of 108-inch pipe amounted to 1,916,148 Israel pounds, of which 1,237,350 Israel pounds was for the purchase of equipment and 678,798 Israel pounds was for the installation of the equipment in the factory. Inspection showed that up to January 1960 conditions had not been determined as to how the state investment, through the Megorot Company, was to be handled - the investment to enable the Yuval Gad factory to produce the 108-inch pipe. It had not been decided whether the equipment that was bought and installed in the factory was owned by the government and used by the factory under conditions of trusteeship (conditions which themselves had not yet been decided) or whether the equipment is to be owned by the company, and the amounts invested by the state are to be a loan. As a result of the lack of a regular agreement of the conditions of the investment in the equipment - which constitute a decisive factor in the expenditures for the production of the pipes - the Megorot Company and the Yuval Gad plant were unable to set their final price for 108-inch pipes, which began to be installed during the summer.

There exists a proposal for an agreement between the Megorot Company and the Yuval Gad plant; it would provide that the equipment will be owned by the government and the Megorot Company will use it as a trustee. According to the Megorot Company, a decision has not yet been taken as to which government agency will be able to make decisions concerning matters affecting the national water scheme, and therefore the company cannot sign the final agreement with the factory, inasmuch as this is the unactivity in which it functions only as trustee. Inasmuch as the Water Law of August 1959 grants the Minister of Agriculture the authority to decide in these matters, there is no reason for delaying the final arrangements in the matter of the ownership of the equipment.

The inspection revealed a number of instances in which cement pipes were ordered from the Yuval Gad factory on the basis of preliminary plans drawn up by the TAHAL Company. Reasons for this were the hurry in the erection of installations and the attempt to insure continuous employment for the workers in the factories. As a result of the early orders and of changes that were made in the final plans, there were instances in which the pipes were produced and then strewn about the countryside for a long time - sometimes several years - before they were put in place below ground. This did not only bring about extra expenses, but also brought about a deterioration in the pipes, which had been uncovered and unprotected from bad weather for a long time. The inspection of these pipes and their reconditioning would require the investment of considerable additional funds. For instance, in July 1956 some 6 kilometers of 24-inch pipe were ordered for the Har Hanegev [Negev Mountain] scheme, carried out by the Megorot Company as agent of the state. At the end of August 1956, about 4 kilometers of pipes had been produced and some 3 kilometers had been placed in the field, when the planners became aware that the pipes that had been produced were not of the kind that were suited to the needs of the enterprise. These pipes, the price of which is 164,000 Israel pounds, remained unprotected, unused, after their production in 1956. The expenditures for the reconditioning of some of these pipes in order to make it possible to install them in 1960, amount to nearly 42,000 pounds. In these instances, in which the final plans require changes from the original, additional expenses were also caused by the need to transport the pipes to a new place of installation. For instance, the additional expenditures for the transportation of the pipes of the Yargon-Negev Line No. 2 from one place to another, a change required because of alterations in the plan of the scheme, amounted to a total of 46,000 pounds, according to the Megorot Company.

On the findings of the State Comptroller about the water economy, the Minister of the Treasury had this to say, inter alia: With respect to the agricultural producer's ability to pay for

water, it appears that in spite of the proposals which the committee submitted to the Ministry of Agriculture, the standards are vague in view of the depressed marketing conditions, high production costs and several consecutive years of drought. Nonetheless it may be assumed that the principles governing the technical regulations for the determination of the price of water will be worked out within the reasonable near future. Preparatory work is being done by the Water Administration for the collection of data concerning this subject. The sub-committee of the engineering committee which is concerned with the new regulations has submitted to the committee proposals and studies dealing with the installation of apparatus, ways of computing depreciation, methods of apportioning the component expenditures, calculations of the interest and related problems. The definition of energy costs and expenses for maintenance and repair, the definition of the private capital of the enterprise, and the distinction between joint expenses and investments are also being considered. Some of the above-mentioned proposals and studies have been concluded by the committee and they will serve as the fundamentals of its general decisions and conclusions.

The computation of the price of Megorot water was arrived at on the basis of the engineering and economic principles accepted by the company to benefit the public in this country and abroad. The present evaluation of the installations, as based on the Israeli code, was arrived at on the basis of capital investment; it is based on the same conditions upon which the government made the capital available to the Megorot Company.

As a non-profit company, Megorot does not make profits, nor is it entitled to subsidies. But it must ask for and collect its self-set price. Inasmuch as there are projects executed for security reasons, and that the agriculturalist is unable to pay their high price, the government determines the price which the consumer is to pay; the balance of the price is paid by the government, not as subsidy to Megorot but as a price-support.

The preparation of the agreement between the Megorot Company and the Yuval Gad factory concerning ownership of the equipment which was acquired and installed at the factory, and the final price of the 108-inch pipe, has been concluded. The agreement will be signed soon. The pipes will be produced in time to the preliminary planning of the Har Hanegev project, which assumes the flow of a daily 30,000 cubic metres from the Yargon line toward Tsa'alim [Tse'alim?]. In the course of the production, additional demand for water on the part of the settlement institutions materialized, and the decision was taken to increase its capacity to 48,000 cubic metres per day. This increase in capacity required the increase of pressures in the line; a change in the

grading of the pipe became necessary. It was decided to produce instead pipe of high quality. The hesitation in laying the 70-inch pipe along the winding highway was the result of a cut in funds and a change in the plan.

In the summer of 1958 the general plan for the exploitation of the one-time reserve of ground-water in the seashore area became finalized. It was decided to give priority to the setting of the Yarqon No. 2 line from the south to the north in order to make possible the utilization of the southern sector for the flow of water southward from the borings, and to transfer the strewn-about pipes to the southern sector. The transport of the pipes cost, according to the estimate of an engineer, 46,000 Israel pounds. The advantage that accrued from the change in the plan according to the experience that was accumulated - with respect to the flow of the Yarqon and the urgent necessity to divert all available water from the seashore area to the south - entirely justifies the outlay. The delay in the laying of the above-mentioned pipeline did not influence the quality of the pipe.

* * *

The Criticism of the Ministry of Defense is Unsensational.

There are Few Irregularities, and Most of Them have Already Been Corrected

The review of the defense set-up this time lacks "sensations". The representatives of the State Comptroller conducted a thorough review of the various branches of the Ministry of Defense, including the purchasing missions in Europe and the United States, and some of the economic branches of TSAHAL [Tsvah Haganah leYisrael - Israel Defense Forces]. The approximately fifty pages devoted to the defense set-up include only isolated instances of irregularities of deficiencies on the conduct of accounts. According to the Comptroller himself, most of these "have already been corrected."

The rates changed - but not the prices

In the section dealing with the armaments section of the Ministry of Defense, the Comptroller points out that in 1950 the Ministry of Defense encouraged the establishment of a private enterprise for the manufacture of certain kinds of weapons and of ammunition for TSAHAL. The concern was owned half by a foreign company and half by an Israeli company. In view of the importance which the defense establishment assigned to the enterprise, the Ministry of Defense aided the enterprise in its early stages. This assistance included advance payments in Israeli currency and in

foreign exchange for the importation of raw materials and for production costs; and the giving of favorable recommendations for import licenses and foreign exchange allocations. Inspection brought out that the Ministry of Defense, at the time of the delivery of the products of the enterprise, took into account differences in rates with respect to those payments and allocations which it itself had made to the concern; but that it did not take into account an allocation which the concern received from other government departments. The concern was not charged for rate differentials for those allocations. The accounting of the Comptroller's office placed these differentials at a total of 565,696 Israel pounds.

The Minister of the Treasury replied to this criticism that after the Comptroller raised the point, the producer was charged for the differentials.

The Affair of the Luna Park in Jerusalem

In the first few years after the end of the War of Independence, the Rehabilitation Division adopted, among several methods for the rehabilitation of disabled veterans, a method which was later discontinued. It was to associate disabled veterans with existing enterprises, or to organize partnerships of disabled veterans. The Luna Park enterprise was one of the experiments to rehabilitate a group of invalids by associating them with an existing company in order to establish an enterprise. This took place at a time during which possibilities of rehabilitating disabled veterans in Jerusalem were limited by the peculiar economic conditions prevailing in Jerusalem in this period. The Luna Park company did not succeed in securing a foothold and in the end not a single disabled veteran was rehabilitated through it.

The Comptroller revealed serious deficiencies in the care provided by the Rehabilitation Division; in particular, he noted that the rights of the state were not secured. When it became clear that the company would not serve to rehabilitate veterans, no attempt was made to see to the return of the monies which were given as loans to the veterans for investment with the company.

The Comptroller notes that the case of the Luna Park must be seen in the light of the situation prevailing in the year 1950. The Luna Park was not an end in itself but rather a means for the economic rehabilitation of a number of disabled veterans in Jerusalem.

It is well known that Jerusalem, which had a considerable number of disabled veterans of the War of Independence, was poor in the possibilities it offered for the rehabilitation of invalids.

When a group of disabled veterans suggested the creation of a Luna Park in Jerusalem on the pattern of a similar enterprise which succeeded in Tel Aviv, the idea was attractive from the point of view of economic rehabilitation.

The first group of disabled veterans which established the enterprise with the aid of the Division failed. When a second group of veterans suggested they enter the enterprise in the place of those that left it, the Division lent a hand in the second attempt. It did so on the assumption that if the management of the enterprise be placed in the hands of a capable person (a native of Jerusalem, completely familiar with the problems of disabled veterans in Jerusalem) chances would be increased for the success of the rehabilitation of 7-8 invalids.

In the course of these years the policy became prevalent that the Division should refrain from interfering in the management of economic enterprises conducted by disabled veterans. The aim of this policy was to bring the invalid to independence in this sphere and to return him to an economic life similar to that of every other citizen. This policy proved itself. Proof of this are the many economic enterprises which were established with the aid of the Division through the several funds, the success of the enterprises and the return of loans by the veterans. Out of the 3.25 million Israel pounds which were paid out for these purposes to veterans in the years 1949-1957, 2.4 million Israel pounds, or 75 percent of the loans, had been refunded by them by January 1, 1960. Chances are that by April 1962 repayment will have reached 2.9 million Israel pounds, or 90 percent of the loans.

It is clear that not all attempts at independent economic rehabilitation succeeded. There were instances of failure, and cases in which it became necessary to repeat rehabilitation attempts. The Luna Park is an instance of economic rehabilitation that failed.

When in 1954 it became clear that the concern had failed, it was decided to liquidate it. The manager of the enterprise was devoted to his tasks. He announced that he was engaged in negotiations for the sale of the concern; and that the chances of saving at least a sizable part of the investment would be enhanced, if a going concern, rather than an abandoned one, were up for sale. So great was the confidence in the manager of the concern - that he would preserve the rights of the Division with respect to the equipment and monies - that steps to safeguard the interest of the Division in the funds which were due to it were not taken.

The matter was referred to the Attorney-General's Office. Otsar Hahayal [the Soldier's Fund], as agent for the disabled veterans, petitioned for the dissolution of the company, which makes it possible to place a (lien?) against the property of the

officers of the company. An attempt is also being made to redeem a mortgage for 30,000 Israel pounds. It is hoped that legal action will correct the mistakes that were made.

The Division was asked to implement the recommendations of the Comptroller in this matter.

Auditing was Inadequate at Ma'arakhot

In giving the summary of his report concerning the Ma'arakhot Publishing House, the Auditor indicated that an examination of the auditing procedures revealed that they were inadequate for the scope of financial activities of the house. For a number of years no reconciliation had been made between the reserves of books stored in the warehouse and the list in the auditing office. The Chief Auditor of the publishing house was at the same time the cashier. The report indicated that this combination of offices in one worker is not desirable.

However, the Comptroller indicated that as a result of the inspection, the publishing house has proceeded to improve its auditing procedures.

Delay in Discharging Soldiers

In his report concerning TSAHAL, the Comptroller devotes a large section on the problem of the delays in the discharge of soldiers.

In a number of cases, the Adjutant General's Office issued the order to discharge individual soldiers only a few days before the date of discharge, and even afterwards. In these cases, the Manpower Section instructed the Reception and Classification Center to register as the date of discharge the date on which the soldiers should have been discharged, and not the date on which they actually were discharged.

In most cases, the delays were caused by the circumstance that the unit of the soldier failed to send the soldier to the Reception and Classification Center in time to meet the discharge order issued by the Adjutant General's Office.

The report stated that the manpower branches failed to check up on the execution of the discharge orders which they issued. They failed to react to the delays, and in general took no action when it became clear that the soldiers were not discharged at the proper time.

The delay in the discharge of soldiers constitutes an offense against the Security Service Law. Besides this, the report finds these cases to be blatant errors in management - such as deserved the attention of the public - considering that in a large

number of cases, the units failed to send the soldiers in time for their discharge, and that the Adjutant General's Office failed to enforce attention to the punctual carrying out of discharges.

In November 1959, the Adjutant General announced that steps had been taken to insure supervision of the issuing of discharges for those serving their military obligations in accordance with the law. Control by the Manpower Branch has been increased to insure punctual execution of discharge orders. Every instance of illegal delay in the discharge of a soldier is being transferred to the Office of the Military Prosecutor. Orders have been given that the date registered as the date of discharge must be the one on which the soldier is in fact discharged.

Too Much Warehouse Damage

With reference to the Quartermaster Branch of TSAHAL, the report indicates that there is considerable "loss of equipment" or shortage and damage occurring in the supply rooms. This is true even if contributory reasons are taken into account: TSAHAL's equipment is distributed among many units and is in use even when it is in movement or during training. In a number of cases lost equipment was found after it was registered as lost. The military authorities are devoting considerable attention to care of equipment and to its preservation and are doing their utmost to reduce the scope of loss and damage.

The report points to the fact that the handling of cases of loss and damage in supply is time consuming, if it involves the decision whether to place the individual responsible before a court or whether to credit the unit list in an administrative manner. The delay is caused in many cases by complications in the conduct of preliminary investigations in the unit in which the equipment was lost. Difficulties are also caused by the situation that in many cases the duty to investigate the circumstances of the loss is assigned to investigating officers who are not sufficiently acquainted with supply procedures and with the law. As a result, the military prosecutors are frequently forced to return the reports of the investigating officers for completion and for the gathering of additional facts.

As for the rights of commands to credit the unit supply list in an administrative manner without prosecuting anyone, the Comptroller's office advises that the appropriate commands be given guiding principles. According to the Comptroller, administrative credits should be restricted to those cases in which the loss or the damage occurred under circumstances over which the person responsible for the equipment had no control - such as combat activities, accidents or fires.

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In December 1959, the Manpower Branch of the General Staff announced that every unwarranted delay in the clarification of cases of loss or of damage will henceforth be subject to disciplinary action. In accordance with the recommendation of the Comptroller guiding principles will be issued to commands concerning the use of their prerogatives to credit administratively the lists of the unit. Special courses and advanced training for officers and for supply staffs are being conducted in order to introduce sound economic practices in TSAHAL.

Unwarranted Damages

An investigation conducted in February 1959 revealed that an employee of the military industry served for five years abroad on behalf of the military industry, as part of a mission which a government agency maintains abroad. During the entire period of his service abroad, his salary was paid out of the budget of the military industry. Close to the end of his term of service abroad his status was defined as "leave without pay." At the beginning of 1959, he was paid damages out of the budget of the military industry in foreign currency, to a value of approximately 5200 Israel pounds. When he returned to Israel he continued to work for the military industry. The military industry determined that the period for which they paid damages to the worker will not be taken into account in the computation of his retirement rights.

The Minister of the Treasury comments as follows: "I completely agree with the Comptroller that it was not justified to pay damages in this case. The Ministry has been asked to make sure that such cases will not occur in the future."

The Committee for the Soldier gave Banquets for Civilians

The Committee for the Soldier [an organization similar to USO] arranges family banquets for soldiers at reduced prices. The Comptroller revealed that in a number of cases the Tel Aviv branch arranged banquets for civilians (mainly weddings). This is deemed to be inconsistent with the Committee and its purposes. In November 1959, the director of the branch announced that orders had been given to insure that in the future only those entitled to them would enjoy the services of the Committee.

The Comptroller criticized the direction of the grant over the manner in which the accounting for the banquets was being handled. As a result of the investigation, the branch instituted suitable registration procedures.

Ministry of the Treasury

DISBURSEMENTS WITHOUT THE MINISTER'S PERMISSION

In surveying the activities of the Treasury, the Comptroller finds that in several cases illegal actions took place. The Comptroller finds, moreover, that in many cases budgetary disbursements were made which went considerably beyond the amounts that had been budgeted for particular purposes; in one case, a million pounds was spent beyond a specific allocation. This was done without asking for and without receiving the permission of the Minister of the Treasury, as required by law. In the Budget Law for the year 1958/59, a sum of 20,000 pounds was allocated for the purpose of reviewing the accounts of previous years; the actual expense under this heading was 620,982 Israel pounds. In addition, the State Comptroller found numerous instances in which revenues were received and expenditures paid out from the Treasury without their being properly registered in the budget.

The State Comptroller states that a sum of 4,332,000 pounds was paid to the Bank of Israel on the account of the funding account of the security advance payment of 5717. This was done under conditions agreed to by the Minister of the Treasury and the representative of the Bank of Israel on 27 November 1957, and approved by the Finance Committee of the Knesset on 3 December 1957. There was thus the possibility to include in the budget for the year 1958/59 the allocation for the payment of the amount of 4,332,000 pounds to the credit of the fund. Nonetheless, this amount was not included in the proposed budget for the fiscal year 1958/59.

The amount of 10,000 pounds, which in the year 1958/59 had been intended to redeem notes from financial institutions, became 4,586,000 pounds. The general account included, in the summary report of income and expenditures for that year, only the amount of 10,000 pounds. In fact, the sum of 4,996,200 pounds was paid to the account of the loan of financial institutions in the period January to March 1959. In that period, a new loan of 4,986,200 pounds was obtained. The two amounts were offset; as a result only the sum of 10,000 pounds was registered.

The amount that was allocated to redeem independence and development bonds during 1958/59 was 18,000,000 pounds. In fact, bonds to the amount of 29.7 million pounds were redeemed. The difference is about 11.7 million pounds. According to the

explanation of the Auditor-General the difference stems from the increase redemption of these bonds, caused by tourists and by investment in local enterprises. The Comptroller points out that it is important to pay attention to budgetary coverage of such large differences by urging supplementary budget legislation; as late as the first half of the 1958/59 fiscal year some 15 million pounds were spent on redemption.

National Loan Bonds Were Not Delivered to Their Owners

According to the special law concerning the National Loan, 5714-1954, every person who paid an advance on his income tax, received a note in the amount of the advance payment that he made. The bonds were issued at first to their owners and in March 1958 were changed to negotiable bonds. At the beginning of the year 1955 these bonds were sent by the manager of the advance payments scheme to their owners by mail. An investigation conducted at the beginning of 1959 found that at the central office of the income tax administration bonds to the value of some 440,000 pounds were being held. These bonds were part of those that were sent in 1955 to those who had made advance payment, but which were returned by the postal authorities because their addresses could not be found.

It was determined that the income tax administration did not take adequate measures to locate the owners of the notes. But attempts were made to obtain the addresses by sending the notes to the work place and to the office of the (directory?) by no systematic locating work was done through the use of the central card file in the income tax office, which includes all individual listings systematically classified. The envelopes which had been returned by the post office were kept in lockers for about two years without calculation and without being registered. Only in March 1957 were the envelopes counted and registered but no attempt was made to check whether the value of the bonds in the envelopes coincided with the amount appearing in the lists of the office.

Neglect in the Customs Department

In the inspection of the Customs and Stamp Department the Comptroller found several shortcomings. One company, one of the principal exporters in a given field, imported since 1954 (under bond?) raw materials required for the production of cocoa products for export. The amount of customs, which were applicable on the total import shipments of this company from 1954 to mid 1959, were computed at about 5.1 million pounds if any export had taken place. On the account of this sum about 700,000 pounds were paid out in cash. As for the balance of some 4.4 million pounds, this was owed

by the company which should either have paid this sum, within a year of the day of the release of each individual import shipment, or should have produced documents on the amounts of finished products which were in fact exported. The company was liable to pay the customs on those amounts of raw material, which did not serve for the production of exported products. The accounting office failed to insist that the company produce at the appropriate time the documents proving export in order that the accounts could be settled. As a result, it was not possible at the time of the inspection to determine the amounts of customs which the company owes from the period from 1954 to mid 1959.

The branch explains the failures in the keeping of proper accounts with this importer - and with a number of other importers in other branches - by saying that in those years repeated organizational changes were made both in the composition and the management of the branch as well as in the units concerned with auditing. Besides the documents proving export, the above-mentioned company even failed to produce any documents relating to goods for exports produced in that period. However, the office took samples from several export shipments of the company. But inasmuch as the laboratory examines the samples by comparing them (to their list of ingredients?), the samples were not subjected to proper laboratory analysis.

Even in the execution of the law on sales tax, the State Comptroller found numerous deficiencies and delinquencies. According to the law, every trader must report within 14 days from the entry in force of the law what his stocks were on the day on which the law or the ordinance entered into force. An inspection held in July 1959 in the regional sales tax offices in Tel Aviv and in Haifa with reference to the carrying out of these ordinances revealed the following: deficiencies in the determination of those owing the tax; lack of uniformity among regional offices in executing the law; a lack of supervision; a failure to take the required steps to obtain declarations in those cases in which those who had to file them failed to do so. The number of traders who were deemed to be included, in Tel Aviv, among those liable to pay the tax on stocks, was without doubt much lower than the number of traders who were liable to produce declarations. The number of traders in the region handled by the Tel Aviv office is much higher than the number of traders included in the scope of the Haifa office. In spite of this, the number of traders included in the Tel Aviv region was smaller than the number of traders included under the Haifa office.

Three great textile plants in Haifa and Tel Aviv - in whose hands there is always a large reserve of yarns - failed to produce declarations. Up to the time of the inspection, which took place some five months after the publication of the order, no steps had

been taken to obtain their declarations. Of 27 traders, who had been requested by the Haifa office to submit declarations on their stocks of sewing and weaving threads, only 3 complied. Steps to obtain the declarations of the 24 other traders were taken only after some seven months.

No inspection was made of the correctness of the declarations that were submitted. In determining the amount of the tax, the office relied entirely on the facts as given in the declaration, without any steps being taken, even limited steps, to inspect the facts. The director of the tax or someone authorized by him is permitted to give reductions of up to 20 percent from the amount of the tax on stocks. It was determined that in Haifa a reduction from the tax on stocks of musical instruments was given for all such traders, while in Tel Aviv such a reduction was not given at all. In those cases in which it was decided in both cities to give a reduction of the tax on stocks, the Tel Aviv office used to give a reduction to all traders, while the Haifa office gave it only to those who asked for it and who declared that in their declarations concerning their stocks they had included also damaged merchandise and non-marketable goods. In October 1959 the director of the customs office announced that he was about to determine procedures for the uniform and systematic collection of the tax on stocks.

The Minister of the Treasury commented on the findings of the State Comptroller in the Ministry by stating that instructions had been given to correct deficiencies and to exercise greater care in the registration of revenues and expenditures exceeding the estimates of the law.

With respect to special national loan bonds which had been returned by the post office, an attempt was made to locate their owners by means of the central card file, but this attempt produced such small results as a result of errors in identification numbers and in names, that it was necessary to use some other procedure. Sending the notes by means of the officials of the (census?) or through the employers gave far better results. Nonetheless, a large number of bonds remain, the owners of which cannot be located.

As for the keeping of the bonds in lockers for about two years, it should be pointed out that the counting of the bonds and their registration took many months because of the need to prepare the listing by several indices (alphabetically and by advance payment number). The registration was completed in March 1957. As for a comparison between the value of the bonds in the envelopes with the sum appearing on the envelopes that were returned open - [here a few words appear to have been left out - Transl.] - in such cases the result of the inspection showed full agreement.

With respect to section 4 of the special national loan law (Voidance of Certain Notes 5717-1957), there were some doubts if indeed the law does not permit the director of the advance tax payments to void the original notes of those paying the advance, if their declarations of non-receipt of the bonds was received after December 31, 1957.

In any case, following the comments of the Comptroller that bonds could not be voided for other reasons either (e.g., damage that might have been occasioned to the holder of a note which was voided after it became a negotiable note, or difficulties which might arise in the distribution of the notes and their transfer from person to person), the director of the advance tax payments scheme decided, as indicated in the summary of the inspection report, not to void notes again.

As for deficiencies that were discovered in the customs department in its accounts with the cocoa industry, the Minister of the Treasury stated: "In the years 1954-59 a certain company imported raw materials for the production of cocoa products for export, which if they had not been intended for export would have been subject to customs charges exceeding 5 million pounds.

"In fact, the company paid only 700,000 pounds and gave bank notes for a total of 208,000 pounds. The company did not produce proofs of the amounts of its products which actually were exported, and the accounting office did not force the company to produce the required documents or to pay the amounts of customs on raw materials which did not serve for the production of products which were exported."

Ministry of Commerce and Industry

ON THE DIFFICULTIES IN THE SUGAR ENTERPRISE

In July 1958 the Ministry of Commerce and Industry signed an agreement with the company in Afulah concerning the refining of about 20,000 tons of raw sugar, which would occupy the concern from mid September 1958 at the rate of 5,000 tons per month. It was agreed that the loss in the refining of a ton of raw sugar would not amount to more than 7 percent, and that the fee for refining would be at the rate of 25 Israel pounds per ton.

For various reasons, some of which could not have been foreseen, the Ministry was unable to provide the sugar at the times that had been decided, and as a result there was a gradual slowdown in the work at the refining plant. According to the company, this caused considerable damage, to the amount of 42,000 pounds.

The Comptroller claims that the Ministry should have foreseen in time the provision of a suitable stock of raw sugar, which would have made it possible for the Ministry to stand by its undertakings vis-a-vis the company. Alternatively, the Ministry should have included a provision in the agreement, which would have made it possible for it to be relieved of its obligations in cases of delay in the import shipments.

Some of the sugar - about 10,000 tons - arrived with a delay of a month or two, and when the company refused to refine the sugar, the Ministry sold about 5,000 tons of raw sugar to concerns in Afulah and in Ramat-Gan; the price was 400 pounds per ton. Afterwards, the Ministry bought the refined sugar from them at the price of 593 pounds per ton. This arrangement gave the companies, after deducting refining costs and loss, a clear profit of 140 pounds for every ton of refined sugar.

In spite of the agreement that the loss in refining of a ton of raw sugar would not exceed 7 percent, it amounted to 9.4 percent in Afulah and to 25.3 percent in Ramat-Gan. To compensate for the shortage in the quantity of refined sugar, the two concerns repaid the Ministry at the rate of 230 pounds per ton, although the price on the market was about 600 pounds per ton. The Comptroller complains that the Ministry did not examine the causes which brought about the sizable decrease in yield. If the Ministry had intended to encourage the enterprises, it should have done so through the grant of a subsidy and not in a devious manner.

In his reply, the Minister of the Treasury comments that the Ministry of Commerce and Industry holds a reserve of sugar for the purpose of supply; this reserve was also available during the year under examination. In addition, in order to provide employment, it was decided to refine ground sugar. Purchases were planned in such a manner that it would be possible to provide the sugar straight from the harbor. As a result of disturbances in one of the supplying countries, changes were made in the dates of transportation.

The sugar is refined in order to provide employment. In calculating refining expenses neither amortization nor general expenses were taken into account. Therefore, an additional profit was allowed to the companies, taking into account the damages that they had suffered through the supply delay, as well as through losses and general expenditures.

The loss in production, which was calculated on a theoretical basis; severe complications in the course of initial production caused a much greater loss, causing great loss to the company. That is why the Ministry did not find it reasonable to ask of the companies the market price of the missing sugar, but rather asked repayment of the actual losses which were incurred by the Ministry; hence the special price.

Inadequate Supervision on Stocks in Warehouses

The Comptroller brings up a number of deficiencies in the conduct of supervision over warehouses and over warehouse procedures. According to the Comptroller, the Ministry does not maintain suitable records on the scope of the various warehouses, on their area, capacity, structure, ventilation, and the nature of their suitability for one or another commodity. To some degree this makes it impossible to judge the quality of a warehouse to ensure its proper use.

In a certain warehouse holes were discovered, and as a result of the intrusion of bats considerable quantities of white sugar were spoiled. In spite of the efforts which were taken by the Ministry, the bats continued to intrude, and it became necessary to refine a large part of the sugar a second time, and to sell the rest at great loss. In another warehouse, a considerable amount of raw sugar was stored for a long time; in spite of the danger of spoiling, the sugar was not marketed in time and began to ferment.

With respect to this, the Minister claims that the supervisors over the storage of goods in the areas made frequent visits to the warehouses, and that the Ministry planned the utilization of its facilities according to their reports. As a result of the Comptroller's report, full records of the details of all warehouses were compiled beginning this year.

The estimate of the State Comptroller concerning the losses incurred by the government as a result of spoilage are exaggerated, since he bases his estimate on the sales price of the sugar and not on the original cost. The damages are not as high as 76,000 pounds, which is the price of the refining of the sugar which has been refined.

Special Import of Phonograph Records

Since the beginning of production of phonographs in the country in 1956, the Ministry has refused to grant import permits for such items. The intention was to aid the progress of the local industry in this field. In one case, the Ministry deviated from this rule and in 1958 gave to a private concern three permits for the import of phonographs from England, on the condition that the company pay for every dollar allocated to it by the Ministry for the payment of the import, a special surcharge of 8 pounds in addition to the official rate.

The FOB prices per unit which were stated in the permits were not properly examined, and after the first shipment had arrived, the customs authorities determined that for the purposes of collecting the import tax and the surcharge, the price per unit would be considered 5.21 pounds sterling.

The surcharge of 8 Israel pounds for every dollar was not determined by the Committee for the Exchange Rate of the Ministry, which should have set it.

One of the three above-mentioned permits was given to the company with the additional condition that the company would be obligated to sell to the Treasury, from its foreign currency account, the sum of \$7,560. This additional condition was voided by the Ministry without giving reasons for the voidance.

The Ministry replies that this matter was handled at a high level of the Ministry, and that after considerable discussion, it was decided to prolong the permit.

Inadequate Supervision over "Licensed Establishments"

In surveying the work of the Investment Center within the framework of the Law for Capital Investments, 5710-1950, as it relates to the granting of the status of "licensed establishments" to enterprises investing monies, the origin of which is partially in foreign investments and partially from government loans, the Comptroller dwells on the need of supervision by the Center over the realization of programs and conditions which serve as the bases for the grant of the status of "licensed establishments" - from the point of view of investment of foreign exchange, the utilization of equipment and materials which were imported under import licenses, and the export of goods in the required quantities.

Licensed enterprises which carry out their plans are allowed, according to the Law for the Encouragement of Capital Investments, to receive reductions and certain facilities with respect to customs, income tax, and with respect to the transfer of profits abroad. To the degree that the owners of these enterprises request the Investment Center for permits for the obtaining of reductions and facilities, the Center conducts proper examinations before granting these permits.

Assuming that sooner or later the owners of all licensed establishments will apply for such facilities, the Comptroller is convinced that the Center should conduct regular inspections of the enterprises at the time of their establishment and to collect data concerning the investment of the enterprises, etc., in order not to burden the officials and the investors with the conduct of a far-reaching one-time inspection. In fact, the Center has not inspected enterprises which have not requested special facilities.

The Ministry replies that the Investment Center conducts inspections concerning the execution of the licensed program, and determines the amount of investment in foreign and local currencies as well as all other conditions which are the bases for granting a license to a concern within the framework of the law. With respect

to the recommendation of the State Comptroller concerning the holding of an inspection at the time of the execution of a project, the Ministry points out that at this time talks are being held designed to coordinate the inspections and, to the degree possible, to integrate them with the inspections of some of the other units of the Ministry of Commerce and Industry. Moreover, in order to make the inspections more efficient and to stimulate the process, the Ministry is about to entrust the inspections to licensed auditors who will conduct their examination according to the set principles of the Investment Center. The inspection will take place as close as possible to the date of execution of the project.

The investigation unit of the Investment Center will have permanent supervision, by means of close examination of the data submitted to the Center. The inspectors of the investigation unit will also visit the enterprises in order to ascertain the correctness of statements.

The Comptroller also calls attention to shortcomings that were revealed concerning the import of feed grains and their marketing, in the management of accounts of returning capital, in the construction of industrial buildings, in the management of development areas, and in enforcement of rules.

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